Statement by Ed Schafer Secretary of Agriculture

Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Committee on Appropriations, United States Senate April 8, 2008

Mr. Chairman and distinguished members of this Committee, I am pleased to appear before you to discuss the fiscal year (FY) 2009 budget for the Department of Agriculture (USDA).

I am joined today by Deputy Secretary Chuck Conner, Scott Steele, our Budget Officer; and Joseph Glauber, our Chief Economist.

Before I begin to discuss the FY 2009 budget, I would like to provide you an update to my February 28 appearance before this Committee to testify about the inhumane treatment of cattle at the Hallmark/Westland Meat Packing Company in California. As you know, on January 30 when the Humane Society of the United States released the video from this facility, I asked the USDA Office of Inspector General to immediately begin an investigation into the matter. Since that time, USDA Food Safety and Inspection Service (FSIS) has implemented a series of interim actions to verify and thoroughly analyze humane handling activities in federally inspected establishments. FSIS has also audited all 18 beef slaughter plants that supply beef to the Federal nutrition assistance programs. I have been concerned that some members of Congress and some of media have mistakenly characterized this recall as a food safety issue. I again want to assure our citizens that this class II recall does not pose

any eminent threat to our food supply. Therefore, once this review has concluded, we will have additional information that, along with the results of the additional verification activities and audits, will determine the actions for FSIS oversight, inspection and enforcement that may be required. We will continue to keep the Committee informed of all developments and will report back to the Committee on our actions.

As I previously mentioned, it is a pleasure to come back before this committee today, this time to discuss the Presidents 2009 budget request for the Department of Agriculture. I come from an agriculture state and understand the important role the Department plays in the lives of many Americans. I look forward to working with you, Mr. Chairman, as well as the other Members, during the 2009 budget process to ensure that we have strong programs that serve not only U.S. agriculture, but a broad spectrum of rural residents and consumers. By continuing the effective cooperation between this Committee and the Department, we can build a stronger America.

After reviewing the record, I am proud to report that the Department has made significant progress in achieving its goals to improve the rural economy, strengthen U.S. agriculture, protect Americas natural resources, and improve nutrition and health. Specifically, I would like to note:

Under President Bush
 seconomic policy, rural America and U.S. agriculture has prospered.

- Renewable energy production continues to grow and is contributing to the energy security of the United States as well as improving the farm economy.
- U.S. agricultural exports were at a record level of \$82 billion in 2007, the fourth record year in a row, and are now projected to set another record of \$101 billion during 2008. This would be an unprecedented increase of \$32 billion in just the last two years.
- USDA continues to pursue the Presidentos trade agenda that will create new market opportunities overseas and ensure the United States remains a leader in a rules-based global trading system. In this regard, we are continuing our efforts to achieve a successful conclusion to the Doha Round of multilateral trade negotiations -- one that will provide fundamental reform of agricultural trading practices and spur economic growth and development.
- In the future, as in the past, our long-term economic growth will be enhanced by supporting international trade, by opening world markets to U.S. goods and services and by keeping our markets open. Progress was made in our efforts to remove trade barriers and ensure a level playing field for U.S. farmers and ranchers when the President signed the Trade Promotion Agreement with Peru last December. Congress can continue to help increase jobs and economic opportunity by passing the pending Free Trade Agreements with Colombia, Panama and South Korea.

- The Department continued its efforts to regain our beef export markets. We have reopened or maintained the markets in over 40 countries that closed or threatened to close their borders to U.S. beef products after the first detection of BSE. Recently, Peru, Colombia, Panama, the Philippines, Indonesia, and Barbados have removed their remaining restrictions for beef and beef products in accordance with international guidelines.
- In December 2007, the Department made the first major revision of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food package in nearly 30 years. The changes take into account an improved understanding of nutritional requirements as well as the changing profile of supplemental nutrition needs of WICs diverse population.
- Actions were taken to improve the safety of meat, poultry, and egg products, by identifying contamination earlier and reducing the exposure to foodborne pathogens.
- The 2006 supplemental funding provided the resources for USDA to work with domestic partnerships to prepare for a potential influenza pandemic. Through these efforts, we have played a leadership role in the worldwide effort to stop the spread of the H5N1 virus overseas and have increased our preparedness to deal with an outbreak should one occur.

In 2007, the Administration announced a comprehensive set of Farm Bill proposals for strengthening the farm economy and rural America. We are continuing to work with the Congress to formulate a new Farm Bill. The enactment of the new Farm Bill may affect some of the 2009 budget estimates depending on specific provisions.

2009 Budget

Although I did not participate in the development of the 2009 budget, Deputy Secretary Conner conducted an in-depth review of USDA¢ budget and program performance in order to develop a budget that meets the Administration¢ 2009 budget targets and contributes to the President¢ policy of reducing the deficit and balancing the Federal budget by 2012. Tough choices had to be made to keep spending under control and achieve the President¢ deficit reduction goals. Therefore, this budget funds the Department¢ highest priorities, while reducing or terminating duplicative or lower priority programs, including earmarks. I believe this is a responsible budget that funds critical programs and priorities and focuses efforts on programs that work and achieve results. Key priorities in the budget include:

- Reducing trade barriers and expanding overseas markets;
- Increasing funding for bioenergy research in support of the President space goal for achieving energy independence;

- Supporting policies that enhance job creation, improve rural infrastructure, and increase homeownership opportunities;
- Ensuring Americans continue to enjoy a safe and wholesome food supply;
- Protecting agriculture from diseases and pests;
- Increasing funding for our major nutrition assistance programs;
- Providing for a record number of acres in conservation programs; and
- Carrying out high priority basic and applied sciences that provide the technology and information necessary for the development of innovative solutions facing American agriculture.

The USDAcs total budget authority request pending before this committee proposes an increase from \$88 billion in 2008 to \$93 billion in 2009, while the discretionary appropriation request is \$17.4 billion, a decrease of approximately \$400 million below the 2008 enacted level. The discretionary appropriation request is based on the 2008 enacted level.

I would now like to focus on some specific program highlights.

Food and Agriculture Defense Initiative

USDA continues its vigilance in ensuring the safety of our food and agriculture system. The Department is a strong partner in the Administration of efforts to prepare for any potential bioterrorist attack. We are working to ensure an appropriate government response to a wide array of threats.

To protect American agriculture and the food supply from intentional terrorist threats and unintentional pest and disease introductions, the budget proposes \$277 million for USDA¢ part of the President¢ Food and Agriculture Defense Initiative. Funding for on-going programs is \$264 million, an increase of \$81 million from the 2008 level. Of the total amount for on-going programs, an increase of about \$14 million for Food Defense would enhance research to safeguard the Nation¢ food supply from foodborne pathogens and pathogens of biosecurity concern. For Agriculture Defense, the budget includes an increase of about \$20 million for research to improve animal vaccines and diagnostic tests. An additional \$47 million would be used to improve USDA¢ ability to safeguard the agricultural sector through enhanced monitoring and surveillance of pest and disease threats, improve animal identification, strengthen response capabilities, and other efforts, such as an expansion of the National Veterinary Stockpile.

In order to keep USDA in the forefront of avian disease research, the budget requests \$13 million to proceed with the design and planning of the Biocontainment Laboratory and Consolidated Poultry Research Facility in Athens, Georgia. This facility is critically needed to conduct research on exotic and emerging avian diseases that could have devastating effects on animal and human health.

Food Safety

One of the Departments top priorities is to ensure the safety of our food supply. The 2009 budget requests record funding of nearly \$952 million, an increase of about \$22 million over 2008, for FSIS to protect the Nations supply of meat, poultry and egg products. About 80 percent of the FSIS funding goes for staff pay for Federal and State inspection programs to meet the demand for inspection services. With this funding, in addition to providing necessary food inspection, FSIS will continue to develop the food safety infrastructure to ensure that inspections systems are better grounded in science and inspector observations and data are captured and used in a timely manner. The objective is to reduce the risk of foodborne pathogens in meat, poultry and processed eggs and consequent infection.

The budget estimates that \$140 million in existing user fees for voluntary inspection will be collected. We will submit authorizing legislation to Congress to expand these collections, adding another \$96 million in new user fees. These fees will

be used to offset needs in 2010, so they have no direct effect on 2009. The proposed legislation will authorize a licensing fee projected to collect \$92 million from meat, poultry, and egg products establishments based on their volume. An additional \$4 million would be collected from establishments that require additional inspection activities for performance failures such as retesting, recalls, or inspection activities linked to an outbreak.

Farm Program Administration and Agriculture Credit Programs

The budget requests \$1.5 billion for the Farm Service Agency to deliver farm programs. This level of funding will support approximately the same number of staff years as in 2008. The budget includes funding to support on-going operational needs based on current programs and the current delivery system.

USDAcs farm credit programs provide an important safety net for farmers by providing a source of credit when they are temporarily unable to obtain credit from commercial sources. The 2009 budget supports about \$3.4 billion in direct and guaranteed farm loans. The 2009 budget proposes loan levels that generally reflect actual usage in recent years.

Crop Insurance

Crop insurance is designed to be the primary Federal risk management tool for farmers and ranchers. In 2009, crop insurance is expected to provide coverage for nearly \$72 billion in risk protection, more than double the amount of coverage provided as recently as 2000. This growth has been accomplished, in part, through the development of new and innovative plans of insurance. These innovations have expanded coverage to new crops or improved the coverage available under existing policies.

Over the years, Congress has challenged USDA to expand the availability of crop insurance to under-served commodities, in particular, to livestock and pasture, rangeland, and forage. Our Department is meeting that challenge. Currently, the crop insurance program offers revenue protection for swine, fed cattle, feeder cattle and lamb. In 2007, the crop insurance program began offering two innovative pilot programs covering pasture, rangeland, and forage. The programs proved to be highly popular with farmers and ranchers and, in 2008, the pilot area is being expanded to provide additional information on program performance.

For 2009, the budget re-proposes legislation to initiate a small participation fee in the Federal crop insurance program to fund modernization and maintenance of a new information technology (IT) system. Modernization of the IT system would improve

program efficiency and provide the capacity needed to keep pace with the ever expanding workload for developing new crop insurance products. The fee would generate about \$15 million annually, which would initially supplement the annual appropriation to modernize the IT system. However, in future years, the fee would replace appropriated funding for IT maintenance. Based on current program indicators, we estimate that the fee would amount to about one-quarter cent per dollar of premium sold. In addition, the budget proposes to expand on language included in the 2008 Appropriations Act by including IT modernization as an authorized purpose for mandatory funding already provided under the Federal Crop Insurance Act. Either approach could be implemented without increasing the Federal budget deficit.

International Programs

Expanding access to overseas markets and securing a level playing field are critical for the continued prosperity of Americas farmers and ranchers. Future growth in demand for our agricultural products is primarily going to occur overseas, particularly in developing countries which are experiencing rapid economic growth and rising incomes. We must, therefore, ensure that our producers and exporters have the tools they need to be competitive in a rapidly expanding global marketplace.

Our 2009 budget proposals support our continued commitment to opening new markets and expanding trade. Increased funding is provided for the Foreign Agricultural

Service (FAS) to maintain its overseas office presence and continue its representation and advocacy activities on behalf of American agriculture.

For the foreign food assistance programs, the budget continues to place the highest priority on meeting emergency and economic development needs of developing countries. The 2009 request for appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program is \$100 million. This level will allow USDA to extend school feeding and educational benefits to about 2 million women and children during 2009. The program is helping children in countries with severe educational and nutritional needs. In recent years, more than 15 million children throughout the world have received benefits from the McGovern-Dole program and its predecessor, the Global Food for Education Initiative.

The budget requests appropriated funding of \$1.2 billion for the P.L. 480 Title II program, which provides emergency relief needs and addresses the underlying causes of food insecurity through non-emergency programs. In addition, to help improve the timeliness, efficiency, and effectiveness of the U.S. Governments response to food needs overseas, increased flexibility is requested in the purchasing of Title II commodities. As the President said in his State of the Union message, this flexibility is important to help break the cycle of famine. In countries like Bangladesh, this authority would have allowed us to provide more assistance, quicker, to those affected by the cyclone several months ago.

The budget requests funding of \$12.5 million in the Office of the Secretary to support the Departments efforts to assist in agricultural reconstruction activities in Afghanistan and Iraq. USDA is providing technical advisors assigned to the Ministry of Agriculture in Iraq, who are assisting in agricultural economics and planning, soil and water policy, extension, and food safety and animal inspection. This collaboration supported the development of the first national strategic plan for agriculture under the new government. Other USDA agricultural advisors are serving on the Provincial Reconstruction Teams (PRTs) working in the rural provinces of Afghanistan and Iraq on activities such as soil and water conservation, irrigation and water management, grain and seed storage, post-harvest loss reduction, marketing system improvements, and livestock health, nutrition, and breeding. These advisors are providing much needed assistance in addressing a wide range of problems brought on by years in some cases decades, of neglect and mismanagement in the agricultural sectors of these two countries. Additional funding will be needed for USDA to continue to be a key player in these areas.

Conservation

USDA fosters environmental stewardship through conservation programs supported with appropriated and mandatory CCC funding. Since 2001, USDA has provided assistance to farmers and ranchers resulting in conservation on more than 130 million acres of land.

The 2009 budget reflects a strong commitment to conservation and includes nearly \$4.6 billion in mandatory funding. Of this amount, \$775 million is needed to support the Administration are Farm Bill proposals. This funding will be allocated among the various conservation programs described below when new program levels are established by the Farm Bill.

Within the total amount of mandatory funds, the budget proposes \$181 million for the Wetlands Reserve Program (WRP). The projected WRP enrollment for 2009 is approximately 100,000 acres, and will bring the total acreage enrolled in the program to 2,275,000 acres, the maximum level authorized by the 2002 Farm Bill. The WRP is the principal support program of the Presidents goal to restore, protect, and enhance 3 million acres of wetlands by 2009. The Administrations Farm Bill proposals for WRP would provide the funding necessary to achieve an annual enrollment goal of 250,000 acres.

The Conservation Reserve Program (CRP) accounts for more than half of the mandatory funds with total funding of just under \$2 billion. Enrollment in CRP is expected to decline by about 2 percent to 34.2 million acres in 2009 due to expiring contracts and the conversion of farmable land to crop production. In addition, funding for the Environmental Quality Incentives Program (EQIP) will increase by \$50 million to just over \$1 billion to protect 17.5 million acres in 2009.

The budget includes \$360 million for the Conservation Security Program (CSP). This level of funding is expected to support almost 25,400 contracts signed in prior years, which cover 20.4 million acres. The Administrations Farm Bill proposals would increase funding for these programs to enroll and treat more acres. In addition, these proposals would reduce the complexity of conservation programs to encourage greater participation.

The 2009 budget includes \$801 million in discretionary funding for on-going conservation work. This level of funding supports programs that provide the highest quality technical assistance to farmers and ranchers and address the most serious natural resource concerns. The budget includes savings of \$136 million from the elimination of funding for earmarked projects, duplicative programs, and programs that do not represent a core responsibility of the Federal government. No funding is proposed for the Resource Conservation and Development Program and the Watershed and Flood Prevention Operations Program.

Rural Development

USDAcs Rural Development (RD) programs support the quality of life and economic opportunities in rural America by providing financial support for housing, water and waste disposal and other essential community facilities, electric and telecommunication facilities, broadband access, and business and industry. This

support includes direct loans and grants and guarantees of loans made by private lenders.

The 2009 budget supports a program level of \$14.9 billion for the RD programs. This level is similar to the level requested in the 2008 Presidents budget, but is about \$3.6 billion less than the amount appropriated for 2008. The difference is due primarily to a reduction in electric utility loans and the elimination of direct loans in favor of loan guarantees for single family housing. The budget supports shifting resources to address the highest priority programs.

The 2009 budget includes almost \$1 billion for rental and voucher assistance to protect the rents of 230,000 low-income households. This is \$518 million more than the amount appropriated for 2008. Of this amount, \$100 million is for vouchers that will promote choice by providing the rental subsidy directly to the low-income tenant. Within the last few years, the period to renew expiring rental assistance contracts has been reduced from five years to one year. This action provided initial budget savings but increased the number of expiring contracts and, hence, the funding needed for renewing these contracts in 2009 and beyond.

With regard to single-family housing, the 2009 budget reflects a shift from direct to guaranteed loans as proposed for 2008. This shift would reduce the cost of providing homeownership opportunities in rural America in a manner than is consistent with the administration of other Federal housing programs and sustainable as a long-term policy.

Guaranteed loans have accounted for almost all the growth in USDA¢s single-family housing program since the mid-1990¢s and have proven to be effective in reaching low-income as well as moderate income households. The 2009 budget includes \$4.8 billion for such guaranteed loans, an increase of \$658 million and an amount estimated to provide about 43,000 homeownership opportunities in rural America.

For the water and waste disposal program, the 2009 budget supports \$1.3 billion in direct loans, \$75 million in guaranteed loans and \$220 million in grants, for a total program level of \$1.6 billion, which is a slight increase over the program level for 2008. The 2009 budget does not repeat the 2008 budget proposal to change the interest rate structure for direct loans, but it does reflect a sizeable shift from grants to direct loans. This shift achieves substantial budget savings while maintaining a high level of financial assistance that most rural communities can afford to repay at low interest rates.

For the electric program, the 2009 budget supports \$4.1 billion in direct loans for distribution, transmission, and power generation improvements. This level is expected to meet the demand for these categories of loans. Funding for baseload generation loans will be determined contingent upon enactment of legislation to authorize a fee to cover all subsidy costs. It is the Administrations policy that the Department of Energy be the sole source of financial support for nuclear power generation facilities.

The 2009 budget supports almost \$300 million in broadband access loans. We believe this amount will provide sufficient resources to serve creditworthy applicants. It

is anticipated that new program regulations for the broadband program will be in place for 2009 to ensure proper administration of the program and that more assistance will be directed to areas without existing providers. The budget also proposes \$20 million in distance learning and medical link grants.

Based on recent trends in applications and the potential availability of carryover, the 2009 funding level for Business and Industry guaranteed loans is \$700 million. In addition, the budget supports almost \$33 million in zero-interest direct loans for intermediary relending.

Research

Research to improve the quality and productivity of Americas food production and distribution system has contributed to the strength of American agriculture. By improving the competitiveness of agricultural research, we will continue to post gains in agricultural efficiency and production. The Administration strongly believes that merit-based, peer-reviewed grants represent the best mechanism for providing the highest quality research. In support of this approach, the 2009 budget for the Cooperative State Research, Education and Extension Service (CSREES) includes a \$19 million increase for the National Research Initiative (NRI), the Nations premier competitive research program for fundamental and applied sciences in agriculture for bioenergy and biobased fuels, a continuing high priority of the Administration. The NRI also supports integrated projects that focus on water quality, food safety, and pest management.

The budget also supports the Administration goal for earmark reform to bring greater transparency and accountability to the budget process. In this regard, the budget proposes to eliminate \$144 million in earmarked projects within CSREES. The budget also proposes to modify the Hatch and McIntire-Stennis formula programs. This proposal will expand multi-state research programs and direct a higher proportion of these funds to competitively awarded research projects. This will ultimately foster greater competition and improve the quality of USDA supported research. As proposed in the 2008 budget, the 2009 proposal would sustain the use of Federal funds to leverage non-Federal resources, maintain program continuity, facilitate responsiveness to State and local issues, and leverage and sustain partnerships across institutions and States.

The budget for the Agricultural Research Service (ARS) includes \$47 million in increases for high priority research conducted in areas such as emerging and exotic diseases of livestock and crops, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention. Funding increases for these critical research priorities are offset by the discontinuation and redirection of \$105 million in lower priority programs as well as the elimination of \$41 million in Congressional earmarks.

Finally, the budget includes \$39 million to complete the 2007 Census of Agriculture, the most comprehensive source of statistically reliable information regarding

our Nations agriculture. With information collected at the national, State, and county levels, the Census provides invaluable, comprehensive data on the agricultural economy which are relied upon to keep agricultural markets stable and efficient.

Nutrition Assistance

The budget supports increased participation and food costs for the Departments three major nutrition assistance programs Food Stamps, WIC, and Child Nutrition. For WIC, the budget supports an average monthly participation of 8.6 million in 2009, up from 8.5 million in 2008. Food Stamp monthly participation is estimated at 28 million, about 200,000 above the 2008 level. School Lunch participation is estimated to grow a little over 1 percent to keep pace with the growing student population to a new record level of 32.1 million children per day.

For Food Stamps, legislation will be reproposed to allow participation of certain households currently not eligible due to retirement and education savings accounts, child care expenses, and military combat pay. These re-proposals will also include legislation to close a loophole that some States used to enroll people not intended to be served by the program. For 2009, the budget includes increased funding to assess ways to increase participation among the elderly and the working poor, two populations that historically have been underserved. In addition, funds are also included to study ways to improve the application process as well as for nutrition education so that we can continue to refine the program.

The Presidents appropriation request is \$6.1 billion for WIC and will provide benefits to an average of 8.6 million monthly participants. Language is reproposed to cap the national average grant per participant for State administrative expenses at the 2007 level, which will reduce overall financial requirements by about \$145 million in 2009. This reduction will encourage States to seek ways to be more efficient without affecting core services. In addition, the budget is reproposing to limit automatic WIC income eligibility to Medicaid participants with household incomes that fall below 250 percent of the Federal poverty guidelines. The automatic eligibility provisions for Medicaid participants make some people with incomes up to 300 percent of poverty eligible, well above the 185 percent of poverty WIC statutory standard.

The Food and Nutrition Service is working with the States to implement the revised WIC food packages rule promulgated in December. The new rules allow the States to offer fruits and vegetables, whole grains, and more flexibility to offer foods likely to appeal to a variety of cultural preferences which will improve WICs ability to achieve its nutritional objectives.

The budget reproposes the elimination of the Commodity Supplemental Food Program (CSFP), since the program is only available in limited areas, and overlaps with two of the largest nationwide Federal nutrition assistance programs. Food Stamps and WIC. USDA intends to pursue a transitional strategy to encourage the 30,000 women, infants and children that are eligible for WIC to apply for that program, and to encourage

434,000 elderly CSFP recipients to apply for the Food Stamp Program. As part of this strategy, the budget provides resources for outreach and temporary transitional food stamp benefits to CSFP participants 60 years of age or older. These benefits would equal \$20 per month for the lesser of six months or until the recipient starts participating in the Food Stamp Program. Overall the Food Stamp Program budget includes \$72 million for the transition in 2009.

The Department has had great success in promoting healthy eating habits and active lifestyles with MyPyramid, the new MyPyramid for Pregnant and Breastfeeding Women and associated web-based, interactive tools. There have been 4.3 billion hits to MyPyramid.gov and 3.2 million registrations to MyPyramid Tracker, the on-line tool that assesses diet quality and physical activity status, since MyPyramid was made available April 2005. The budget includes an increase of \$2 million to update and improve these popular tools plus develop the 2010 *Dietary Guidelines for Americans*. USDA has the lead in developing the *Dietary Guidelines* • the basis for determining benefit levels in Food Stamps, Child Nutrition Programs, WIC and others, as well as for Federal nutrition policy and nutrition education activities. This supports the HealthierUS Initiative, which is aimed at improving diets and increasing physical activity in order to reduce obesity in America.

Department Management

The 2009 budget continues to support the overall management of the Department. Increased funding is being sought for selected key management priorities including:

- Reviewing agency compliance with civil rights laws in program delivery and affirmative employment goals, while providing effective outreach to ensure equal and timely access to USDA programs and services to all customers.
- Ensuring that ethics oversight and the delivery of ethics services to the agencies is carried out in a consistent manner with clear accountability in the USDA program.
- Providing oversight of program delivery by conducting audits and investigations and limiting fraud, waste, and abuse throughout USDA.
- Funding rental payments to the General Services Administration and security
 payments to the Department of Homeland Security to provide USDA employees with
 a safe working environment.

In closing, I want to emphasize that the USDA budget fully supports the Presidents goals and funds the Departments highest priorities. That concludes my statement. I look forward to working with Members and staff of the Committee and we will be glad to answer questions you may have on our budget proposals.